



**SPOTLIGHT**  
Savills Research

China Logistics - Nov 2022

# The Greater Bay Area Logistics Index

**savills**  
第一太平戴维斯



# INTRODUCTION & GLOSSARY



## Background

- ▶ Savills launched the inaugural publication of the Greater Bay Area Logistics Index Report in 2020 to provide developers, landlords, occupiers and investors with a benchmark to keep abreast of the changes in the logistics market, enabling them to refine or adapt business and corporate real estate strategies, and the report is updated periodically.



## Grade A warehouse

- ▶ Grade A warehouse refers to preferably steel structure warehouses with a clear ceiling height in excess of nine metres and a ground floor loading capacity of at least three tons per sq m; additionally, the project should have a minimum of Class C, Grade II fireproofing.



## Total occupancy cost

- ▶ The total occupancy cost is a lump sum cost of net effective rent, property management fees and related taxes.



## Sampling, timing & delimitation

- ▶ The report covers nine mainland cities and Hong Kong SAR within the GBA, with city indices starting from different base years depending on the market development stage. The indices for Hong Kong, Shenzhen and Guangzhou start in 2010, while other cities in the study start in 2015 or later.



## Index

- ▶ The rental and price indices reflect the trends among different cities and indicate the commonalities and divergences of the logistics markets in different cities.



## Frequency

- ▶ The GBA Logistics Index Report was first published in July 2020 and will be updated on a semi-annual basis in order to provide the latest trends on rental and price changes among all the city logistics markets within the GBA.



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## KEY FINDINGS

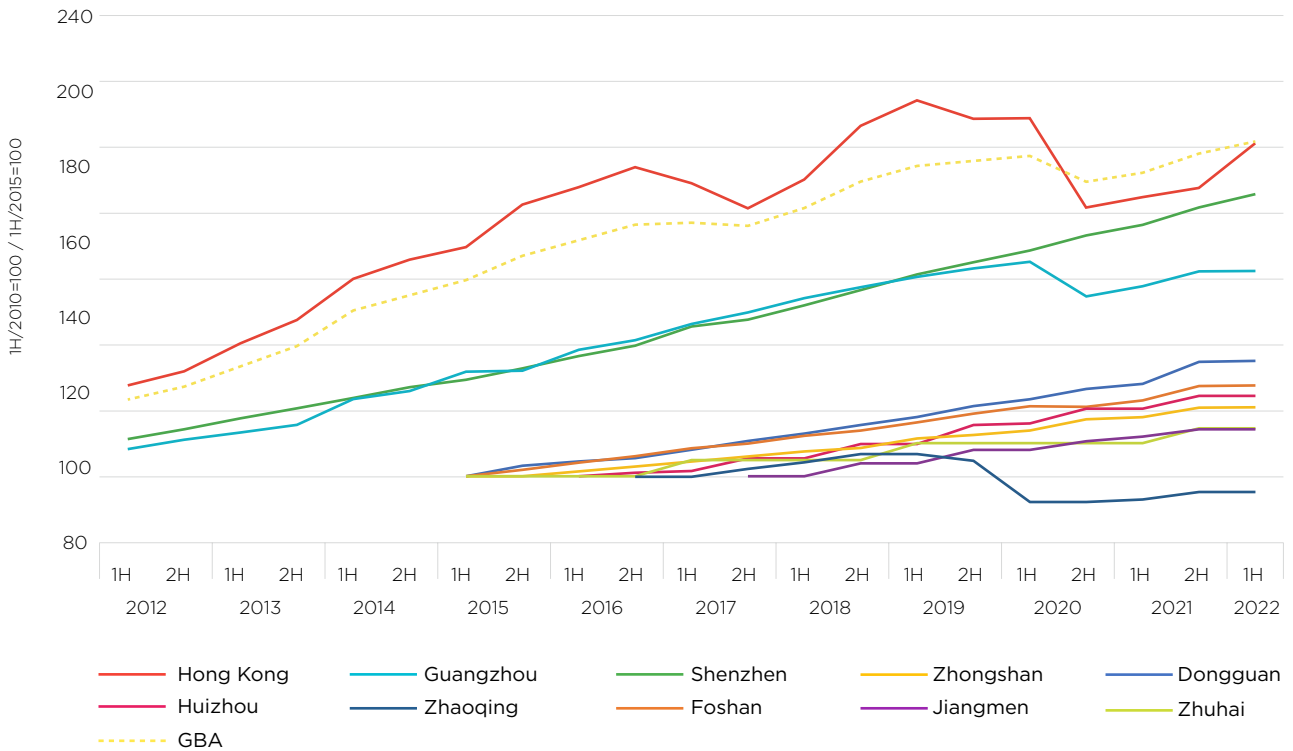
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The GBA logistics property market inherited its growing momentum since last two years at the beginning of 2022 and performed well on par with market expectations during Q1/2022. However, this has been shaken up since April 2022 as logistics property occupiers started to have a growing concern over their business operations. The confluence of domestic and global events affecting the economy, trade and global supply chain had left occupiers reviewing and altering their logistics property plans and as a result, leasing demand for the overall GBA logistics property market softened HoH, causing a small uptick in the average vacancy rate. Nonetheless, this had not dampened the leasing sentiment from most landlords' perspective and changed their letting strategies just yet and the GBA rental index inched up by 1.3% HoH and 4.3% YoY by the end of 1H/2022 concurrently. During the same period, many investors' investment interest in the GBA logistics property investment market remained intact compared to 2H/2021, and the level of transactional activity was on par with what was seen in the last 12 months, with a couple of investment deals closing within the region. The GBA price index grew 5.1% HoH and 9.7% YoY by the end of 1H/2022. Despite the upbeat performance of both rental and capital values in the first half, all the GBA logistics markets entered a late upswing market cycle, with rentals particularly approaching their peaks in most of the cities, if not all.

Looking into 2H/2022, the recurrence of covid outbreaks in many cities, albeit at a small scale, has already brought about some negative impacts on the development of the supply chain, eroding occupancy and rental rates from an asset management perspective in the leasing market in early 2H/2022. This will likely lower the rental index further by end-2022. Although investors are becoming more rational and price-sensitive and even selective with their deal sourcing, this is not enough to alter landlords' pricing confidence and strategies for at least 2H/2022 and thus the GBA price index is expected to rather become steady in the second half.

# THE GBA LOGISTICS INDEX

GBA Logistics Rental Index, 1H/2012 - 1H/2022



Source: Savills Research, 2022



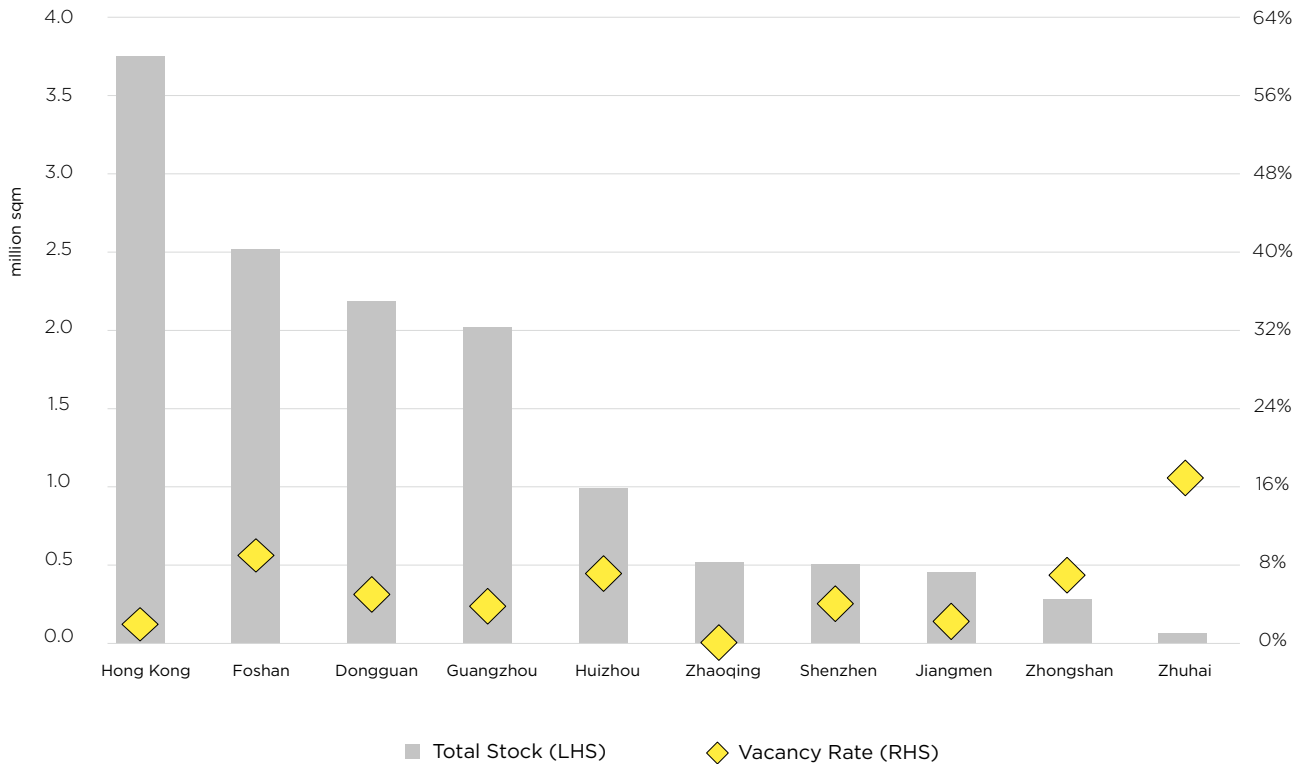
## Rental Index

- Rents in most cities continued to grow at a moderate pace, leading to an increase in the rental index by 1.3% HoH and 4.3% YoY by the end of 1H/2022. Hong Kong recorded the highest growth of 7.2% whilst Zhuhai, Huizhou, Jiangmen and Zhaoqing remained unchanged. It should be noted that landlords' attitudes towards rental expectations started to soften in early 2H/2022 considering a gradual weakening of leasing demand in almost all the GBA cities.



# SUPPLY & DEMAND

Grade A Warehouse Stock & Vacancy Rate By City, 1H/2022



Source: Savills Research, 2022



New supply across the GBA logistics property leasing markets by city remained relatively limited although a total new completion of approximately 520,600 sqm in GFA located in Shenzhen, Dongguan and Zhaoqing, respectively, was handed over to the market during 1H/2022. In response, the total stock of the GBA logistics leasing market accumulated to 13.3 million sqm by the end of 1H/2022.

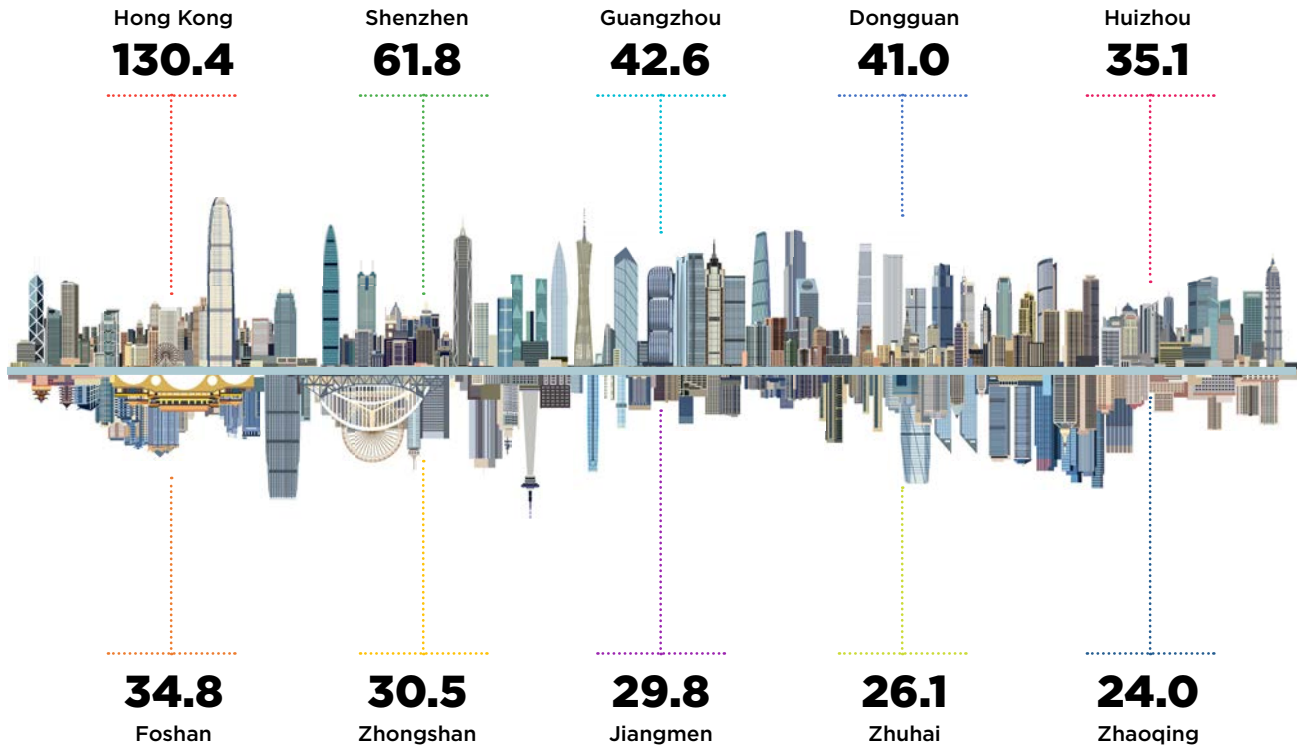
The overall leasing demand for the GBA logistics properties softened HoH to some extent, impacted by multiple disruptive forces such as the ongoing pandemic, persistent covid outbreaks and global economic uncertainties surrounding the Ukraine crisis, escalated international geopolitical tension, global inflation and global supply chain blockage etc. Many logistics property occupiers became more price-sensitive when reviewing their logistics real estate needs and strategies, slowing down their leasing activities. Meanwhile, some well-known domestic occupiers started to surrender some logistics spaces during 1H/2022, relocating to their self-built warehouses following the completion of their self-owned logistics properties in multiple GBA cities. Many key logistics property markets in the region thus saw an uptick in their vacancy rates and by the end of 1H/2022, the average vacancy rate of the GBA logistics property market increased by 1.3 ppts HoH and 1.6 ppts YoY to 4.7%.





# OCCUPANCY COST

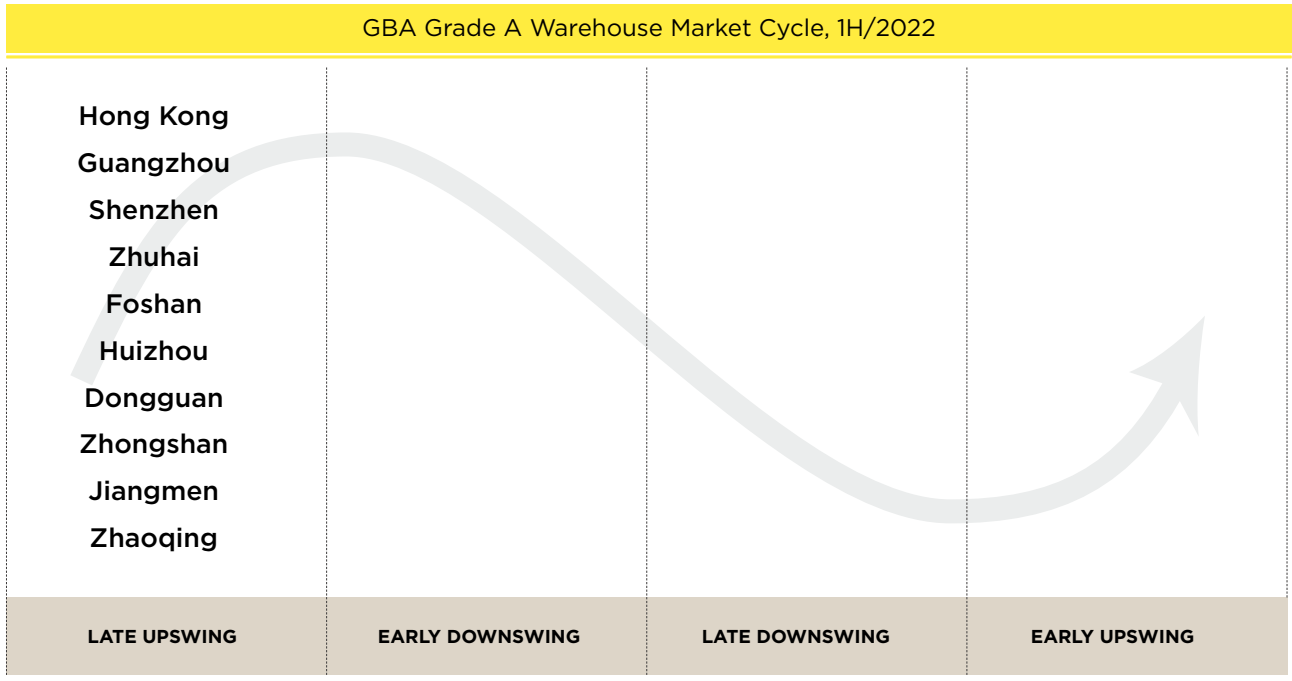
Occupancy Cost By City, 1H/2022



Source: Savills Research, 2022



# MARKET CYCLE



## Late Upswing

All GBA logistics property markets entered the late upswing market cycle given the current circumstances in the domestic market. Many occupiers were reaching their rental thresholds, constrained by interrupted growth in their businesses. There was also a growing concern from the landlords as vacancy rates were expected to go up in the remainder of 2022. Moreover, market sentiments were increasingly prudent and more rational in terms of leasing and investing in logistics properties.







## Outlook

The global and regional economic backdrop should remain challenging in at least a short term and will continue to weigh on the global supply chain, rendering negative impacts on the logistics property market nationally and regionally. However, there is still plenty of policy adjustment room for the improvement of the Chinese economy and the real estate market particularly in the industrial sector, slating a strong foundation for the future long-term development of the market in a stable manner. The impact of persistent covid outbreaks in many cities, albeit at a small scale, has hindered the development of the supply chain, eroding occupancy and rental rates from an asset management perspective in the leasing market in early 2H/2022, just before a full economic recovery and an optimised business environment were realised. Although the rental index is expected to edge down by the end of the year, the overall logistics property investment market should stay attractive on the other hand, with initial yields still higher than those of other conventional property sectors, albeit investors are keeping a more cautious and selective attitude. The investment sales market will be strong in terms of pricing given the above considerations, supporting a steady price index in the rest of 2022.

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